ASPECTS OF INVOLVEMENT OF TRANSNATIONAL CORPORATIONS IN THE RESTRUCTURING OF THE WORLD ECONOMY

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1 INTRODUCTION

This paper traces important aspects of the role of transnational corporations (TNCs) in the international economy since about 1970 and examines the major consequences of these developments for the future course of the world economy. The role that TNCs have played has been complex, simultaneously reflecting and also helping to shape major developments in the world economy. The picture that will emerge is one of both continuity and change. With respect to the continuities, they reflect processes that have been at work since the 1950s. An earlier paper (Nixson and Yamin, 1980) covering the 1960s and early-1970s pointed out that these developments could best be described as a many-sided process 'gradually resulting in a deepening internationalisation of the world economy' (p.19). Three aspects of this internationalisation were highlighted:

(a) A larger number of participants in international production,
(b) Sectoral widening of internationalisation, and
(c) Greater intra-firm integration.

In this paper we show that all these tendencies have continued and that the process of internationalisation has intensified during the 1970s and the 1980s.

At the same time however, the process of internationalisation is characterised by fundamental structural discontinuities. Thus the world economy up to about 1971 was one in which the USA was more or less dominant.

* I am grateful to Fred Nixson for stimulating discussion on several key points in an earlier version of the paper and would also like to thank D.S.A. Conference participants and Vaughan Galt and William Seal for helpful comments. The usual caveat applies.
This dominance in fact played a very positive role in the rapid expansion both of international trade and production: the generally stable environment for international transactions, the creation, for the the first time, of institutional structures (the IMF, the World Bank, GATT) supportive of liberal international trading, financial and credit regimes and, even more fundamentally, the very survival of capitalism in the war shattered economies of Western Europe and Japan, were all underpinned by the overwhelming political and economic power of the USA (Brett, 1985; Armstrong et al, 1984). Gradually however the faster rate of accumulation in other advanced countries and particularly in Japan and Germany undermined American dominance. The eclipse of US dominance culminated, in 1971, in the abandonment of the Bretton Woods arrangements and an end to the convertibility into gold of the US dollar.

Another major, but secondary, development in the world economy has been the emergence of the so called ‘newly industrialised countries’ (NICs) as significant new exporters on a world scale. This development however is secondary for two reasons. Firstly even the combined weights of the NICs in international markets does not approach Japan’s. Secondly as we shall argue, the rise of the NICs is not an altogether ‘independent’ phenomenon, since, in part at least, it is a product of the competitive struggle between US, Japanese and European economies and multinational companies.

2 CONTINUITY: INTENSIFIED INTERNATIONALISATION OF THE WORLD ECONOMY.

As noted in the introduction intensified internationalisation is a continuation of a process set in train during the 1950s and 1960s and has three significant features:

(i) Larger Number of Participants in International Production

The 1970s and 1980s have witnessed a period during which the leading firms from all major capitalist countries have become more and more international in their scope, utilising both international trade and other forms of international operations such as direct foreign investment (DFI), licensing and other forms of technology agreements as well as sub-contracting arrangements. Thus international trade accounted for a significantly greater portion of all economic activities in 1980 compared to 1970. The share of exports in world manufacturing GDP rose from 29.9 to 55 percent (Clairmont and Cavanagh, 1984, p.224). In the service sector the corresponding percentages were 6.9 and 10.8. These figures reflect the fact that a considerable portion of the output of services is not tradable. As we shall see below however, financial services have in fact experienced rapid internationalisation. Looking specifically at the operations of the world’s 400 largest industrial firms an even clearer picture of continued internationalisation can be observed. Thus the ‘foreign’ content of the activities of these firms increased significantly during the 1970s. For example, the overseas employment of these firms rose from 39 per cent of total employment in 1971 to 46 per cent in 1980 (UNCTC, 1983, p.48).

Perhaps the most notable aspect of continued internationalisation is the fact that the largest operators are no longer primarily American or British. In fact there has been a considerable decline in the US share of the sales of the world’s largest enterprises, falling from 67.8 per cent on 1962 to 47.8 per cent in 1982. By contrast the share of Japan in the sales of the world’s largest firms over the same period rose from 3.6 to 12.8 per cent (Dunning and Pearce, 1985, Table 3.1). The faster growth of non-US enterprises was already noticeable in the 1960s (Hymer and Rowthorn 1970). However initially, the growth of non-US (and non-UK) firms was not based on DFI. In fact during the 1960s the largest firms in Germany and Japan did not commit many resources to DFI or other forms of international production and even now their ‘degree of multinationality’ is considerably less than the largest US or UK enterprises.

But during the 1970s, non-US firms committed very large amounts of resources to DFI and as a result, as can be seen from Table 1, compared to the 1960s and early 1970s the share of the US (and to a lesser extent, that of the UK) in the outflow/stock of DFI has declined, whilst the share of Germany and Japan has risen significantly. Between 1977 and 1982 the largest Japanese firms in fact experienced a much greater increase in the degree of multinationality than firms from all other countries except Sweden (Dunning and Pearce, 1985, Table 7.8).

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<tr>
<td>USA</td>
<td>57.0</td>
<td>53.8</td>
<td>47.0</td>
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<tr>
<td>UK</td>
<td>16.6</td>
<td>12.0</td>
<td>13.8</td>
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<td>2.6</td>
<td>6.9</td>
<td>10.2</td>
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<tr>
<td>FRANCE</td>
<td>5.7</td>
<td>3.4</td>
<td>5.6</td>
</tr>
<tr>
<td>JAPAN</td>
<td>1.4</td>
<td>3.6</td>
<td>7.2</td>
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</table>

Note: the figures for 1967 refer to the percentage share of each country in the stock of DFI assets.
FRG = Federal Republic of Germany
The available information indicates that during the 1980s the flow of DFI and particularly US DFI has been very volatile (UNCTC, 1987). Nevertheless it is clear that the decline in the US position accelerated dramatically. This information does not reveal the share of individual European countries but it does give the share of Japan which continued its sharp increase. According to these data in 1985 the share of the US in the outflow of DFI was 30 per cent (compared to over 35 per cent in 1980). The corresponding figures for Japan were 2.4 and 4.3 per cent respectively (UNCTC, 1987, p.3).

Another phenomenon already observable during the 1960s was the internationalisation of relatively small firms in the developed countries (UNCTC, 1978). During the 1950s and early 1960s international operations and particularly DFI were the virtual monopoly of the very largest firms. This reflected the very high fixed costs and risks of foreign operations and particularly of DFI. But these costs have now declined significantly, mainly because of the much greater ease of international communications: much cheaper air travel and telecommunication and the ‘information technology revolution’ now enable quite small firms to control and coordinate complex operations across national boundaries in a way that was not possible in the 1960s or earlier. Another factor that has encouraged this process is the internationalisation of a whole range of services, providing the kind of infrastructure specifically required by international business (see below).  

Compared to the larger TNCs, the internationalisation of small firms is more likely to take a ‘non-equity’ form, that is, through licensing or sub-contracting rather than through DFI. This is not to imply however that non-equity operations are insignificant so far as the large TNCs are concerned. Even though no precise data on the extent of non-equity operations exist, it is probably safe to claim that DFI on its own is ‘an increasingly inadequate indicator of the extent of TNC activity and their influence on the world economy’ (Nixson and Yamin, p. 18). DFI is usually preferred because the ownership of equity is often the least ambiguous and the surest means of control. However, it is the effective control over assets rather than the legal title to them that matters to firms. In fact, following Cowling and Sugden (1987a) a firm may be defined ‘as the means of coordinating production from one centre of strategic decision making’ (1987a, p.60). A TNC is then any firm that coordinates production in different countries from one centre of strategic decision making. The importance of this concept of the firm lies in the fact that, unlike the Coasian concept, it can include coordination through the market as long as this coordination is controlled by one centre of strategic decision making. According to Cowling and Sugden’s definition, a firm that organises international production purely by sub-contracting arrangements is just as much a TNC as a firm that utilises only DFI. This is an important point which we consider again in the next section when we deal with the role of TNCs in the expansion of manufacturing exports from the NICs.

(ii) Sectoral Widening of Internationalisation

During the 1960s, the most rapid growth in DFI and the internationalisation of business took place in the manufacturing sector. In the 1970s and 1980s it has been the service sector that has experienced the most rapid internationalisation.

Thus by the early 1980s the flow of US DFI to other developed countries was greater in services than in manufacturing (UNCTC, 1983, p.293). More information on the sectoral distribution of DFI over the periods 1970-72 and 1979-80 is shown in Table 2. The table shows that for three countries with large DFI flows, and for which the relevant data are available, growth in the outflow of DFI has been greater in services than in manufacturing. It also shows that the flow of Japanese DFI in services actually exceeded that in manufacturing in the early 1980s, whilst for the USA they were roughly of the same magnitude.

<table>
<thead>
<tr>
<th>Table 2</th>
<th>SECTORAL DISTRIBUTION OF OUTWARD DFI (%)</th>
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<tr>
<td></td>
<td>1970/72 (Flow)</td>
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<tr>
<td>A - USA</td>
<td></td>
</tr>
<tr>
<td>MFC</td>
<td>43.2</td>
</tr>
<tr>
<td>Services</td>
<td>22.0</td>
</tr>
<tr>
<td>B - UK</td>
<td>1971 (Stock)</td>
</tr>
<tr>
<td>MFC</td>
<td>60.0</td>
</tr>
<tr>
<td>Services</td>
<td>23.6</td>
</tr>
<tr>
<td>C - JAPAN</td>
<td>1972/73 (Flow)</td>
</tr>
<tr>
<td>MFC</td>
<td>38.1</td>
</tr>
<tr>
<td>Services</td>
<td>32.8</td>
</tr>
</tbody>
</table>

MFC = Manufacturing

More recent data, relating to the 1980s show that the relative growth in service DFI has accelerated although it is not clear if this has been at the expense of manufacturing or other sectors. By 1985 the share of services in the stock of US DFI had risen to 44 per cent. The corresponding figure for Japan was 52 per cent. (UNCTC, 1987, p.19).

The decline in the share of manufacturing in the total flow of DFI during the 1970s and 1980s, should not obscure the fact that foreign investment (via DFI) in manufacturing was significantly higher than domestic manufacturing investment in the developed countries during the same period (UNCTC, 1983, p.2). This is most clearly the case for the UK. The figures in Table 2, in fact, imply an interesting contrast in the relative weight of the service sector in the domestic economy compared to its weight in the international operations of UK business: manufacturing is still the predominant outlet for UK DFI. More specifically the
process of ‘de-industrialisation’ in the domestic markets of most developed capitalist countries, defined as the relative or absolute decline in manufacturing employment, has gone hand in hand with the increasing internationalisation of the manufacturing sector, but whether internationalisation has merely speeded up the process of structural adjustment or played a casual role is not yet clear, (see also below).

Turning now to developments within services, the tendency towards internationalisation is most prominent in banking and financial activities. The world’s largest banks already had a vast international network of affiliates by the mid-1970s; the largest 50 had a total of 2,929 foreign affiliates in 1975. This was 60 per cent larger than the total number of affiliates only 5 years earlier (UNCTC, 1978). Since then, even though no comparable data are available for later years, there are indications of continued rapid internationalisation of the banking sector. Thus for the seven largest US banks, the proportion of foreign to total profits rose extremely rapidly from 22 to 60 per cent between 1970 and 1982 (Clairmont and Cavanagh, 1984). Another indicator of growing internationalisation is the increasing numbers of international mergers and acquisitions in the banking and financial sector. Clairmont and Cavanagh (1984, Table 13) document 36 large scale mergers involving primarily US, UK and Japanese banks and finance houses in the early 1980s.

During the 1980s Japanese transnational banks have grown very rapidly and have now probably overtaken US banks in size. In 1985 27 per cent of the assets of the world’s top 500 banks were controlled by Japanese banks as compared to 18 per cent for US banks and only 5 per cent for UK banks (UNCTC, 1987, p.12).

It would seem that the internationalisation of banking has both helped and been helped by the internationalisation of business activity in general. As it has been noted by, among others, Fujita and Ishigaki (1986), banks often became international in order to provide a more effective service to their major customers who were now operating internationally. And, as suggested earlier, the internationalisation of banking and other business and financial services, has probably helped smaller firms to reduce some of the costs and risks of international operations. During the 1970s and 1980s we have in fact witnessed a growing integration between financial and industrial transnational capital (Andreff, 1984). There is also some evidence for the view that TNC banks and financial institutions are emerging as the dominant partners. Thus in 1965, 64 out of the world’s 487 leading companies were controlled by banks. In 1978 the number of firms in the same sample controlled by banks had increased to 125 (cited by Andreff, 1984, p.61).

(iii) Increasing Intra-Firm Integration

Already by the beginning of the 1970s a very substantial portion of US and UK trade was within the TNCs' network of affiliates. Thus as much as 50 per cent of all US exports and 46 per cent of its imports were within the TNC system (UNCTC, 1983). No comparable data exist for other countries, nor for developments since the mid-1970s. However, there are certain qualitative pointers to an increasing degree of intra-firm trade. We know that during the 1970s European firms experienced significant increases in intra-firm transactions (UNCTC, 1978). They were also adopting the kind of international managerial organisation, already prevalent amongst US TNCs that facilitates the coordination and control of the affiliates by the headquarters.

An indicator of more recent developments is the dramatic reduction in the cost of transmitting data and information internationally (UNCTC, 1987). The greater part of such data flows is intra-corporate which clearly both facilitates and reflects increasing intra-firm integration.

In fact a number of analysts such as Porter (1986) have argued that during the 1980s TNCs in many industries have become truly global rather than merely 'multi-domestic'. Broadly, a multi-domestic industry is one in which the leading TNCs have operations in a number of countries but where the degree of interdependence between such operations is not great. What one subsidiary does is not overly dependent on the rest of the TNC’s network. By contrast the degree of interdependence is great in a global industry.

In essence globalisation reflects increasing intra-firm and intra-industry spatial and productive division of labour on a world scale. Each subsidiary is part of an integrated network under the direction and control of the TNC headquarters. The specific character and degree of globalisation may vary between different industries. The process is perhaps most fully developed in the motor vehicle and the electronics industries (Dicken, 1986).

On particular aspect of this intra-firm division of labour that has attracted much attention recently is 'global sourcing' - the formation of export platform subsidiaries or subcontracting arrangements,1 in low wage economies to supply the home and other major markets of the TNCs. (Casson and Associates, 1986; Fröbel, et al, 1980). The extent to which intra-firm division of labour has been responsible for the expansion of manufacturing exports from the LDCs is examined in the following section.

Before moving on to consider such issues however, it is useful to consider more explicitly some of the consequences of the tendencies described above for the future development of the world economy. In general terms, the various consequences can undoubtedly be summed up as: increasing control by TNCs over production, distribution and financial activities on a global scale. It is nevertheless instructive to examine certain individual tendencies that together bring about the expansion of TNC control over the world economy.
One such tendency is the much greater international mobility of resources (excluding non-managerial labour). The expanding network of affiliates, increasing globalisation and intra-firm integration have enhanced the ability of the headquarters of TNCs to monitor market conditions practically anywhere in the world. It is this enhanced capability that underlies the greater mobility of the resources under the control of TNCs. One indicator of greater mobility is the fact that during the 1960s and early 1970s the number of 'exits' by US TNCs, that is, the number of subsidiaries that were sold or liquidated, showed an upward trend (Curran et al., 1977, p.173). Unfortunately, similar data for other countries or for a later period are not at hand although there is every expectation that the sensitivity of TNCs to market conditions and the opportunities for profit in different countries has increased since the mid-seventies. As was pointed out earlier, the process of 'de-industrialisation' has probably been accelerated by the internationalisation of the manufacturing sector. It is also possible that in the context of specific countries internationalisation may play a casual role. Thus as Cowling and Sugden note: 'The combination of unified international markets, and giant international firms bestriding them provide a ready mechanism for de-industrialisation wherever the conditions for capitalist accumulation are weakened' (1987b, p.86). The experience of the UK in the late 1970s and early 1980s has been interpreted as a particular example of this process. (Cowling, 1986). A related phenomenon is the remarkable rapity and ease with which financial capital moves around the major capitalist centres. What is more, only a mere 1 or 2 per cent of the volume of capital movements is actually related to trade in goods or services (Buckley, 1986, p.8).

The organisational ability of the industrial and financial TNCs both to monitor market conditions and to move capital and other resources around the globe adds credence to Clifton's (1977) analysis. He has argued that, in terms of Marx's conception of the development of the system, present day capitalism is more competitive than it was in the nineteenth or early twentieth centuries when the system was dominated by small, single product, family-controlled firms. This is of course contrary to the usual characterisation, by Marxist and non-Marxists alike, in which the powerful position of large firms and TNCs is either seen as 'monopoly' capitalism or as reflecting market 'imperfections'. For Marx the essence of competition was capital's freedom to seek the highest rate of return. The typical nineteenth century firm imposed severe organisational constraints on capital's mobility between different markets within the same country and even more so internationally. With the development of large, multi-divisional and multinational firms this organisational constraint has virtually disappeared.

A separate but related consequence of the above developments, one which may affect more the course of future development than reflect the current situation, is what Radice (1984; 1987) has called the 'disintegration' of national economies. National economic integration is taken to mean both the existence of, and, the ability to sustain a 'potentially self-sufficient industrial economy' (1987, p.2, emphasis in the original). This in turn depends both on the existence of a sufficiently wide range of vertical linkages in production within the country and, in the long run, on the location of innovative activity. The internationalisation of economic activity has undermined the economic integration of not only the LDSs but also of most developed capitalist countries. Thus, according to Radice's analysis 'only the USA, West Germany and possibly the Soviet Union constitute integrated national economies' (1987, p.4).

Radice's theoretical framework and hypotheses await empirical investigation. But to the extent that national disintegration becomes a reality its effect, reinforced by the enhanced mobility of the resources organised and controlled by TNCs, would be a decline in the relative autonomy of national policy-making. This is not to deny that government policies have had a profound influence on the way in which the internationalisation of the economic activity has impacted on particular economies. This is agreed upon by neoclassical writers, (Dunning, 1985) and others, (Evans and Alizadeh, 1984) alike.

But the international context of national policy-making is changing in a direction that reduces national autonomy. Thus, for instance, an 'inward looking' policy, quite irrespective of its theoretical merits or demerits, may increasingly face formidable obstacles emanating from the activities of TNCs who may no longer be interested in helping LDCs to develop industries oriented to relatively small and stagnant domestic markets. Increasingly, also, 'inward looking' strategies encounter opposition from the IMF and the World Bank. For many LDCs particularly those which have not yet embarked on industrialisation the options are more restricted in the 1980s than they were in the 1960s or 1970s. Yet, paradoxically, the reduced opportunities for independent policy and action may well facilitate the emergence of strong governments as long as these governments follow policies that are in tune with the process of internationalisation. Not only would such governments receive economic and political support, but, also, the imperatives of the 'new realism' would weaken internal opposition. In brief, reduced national autonomy is not the same as weakening of governments or states per se.

3 Structural Change: Japan, the NICs and the TNCs

As we have already noted the most important development in the global economic environment since the 1970s has been the erosion of US dominance and the emergence of an economically powerful Japan. Although this fact is well known in general terms, it is nevertheless important to highlight certain aspects of it. This is done in Tables 3 to 5 below. Thus Table 3 shows a dramatic decline in the share of the USA in world manufacturing output and a corresponding rise in the share of Japan and to a lesser extent Germany. Table 4 shows that by 1985
Japan had overtaken both Germany and the USA to become the largest exporter of manufactured goods. Table 5 shows the steadily rising trade imbalances of the three largest industrial powers, indicating a particularly sharp increase in the Japanese trade surplus.

Japanese firms have now become the dominant force in some of the most dynamic and fastest growing markets. Thus Japan is by far the largest exporter of not only all sorts of automotive equipment but also of business and consumer electronics and telecommunications equipment and the second largest exporter of computers (GATT, 1986, Table A30). What is perhaps more significant is that the USA is by far the biggest and the most rapidly growing market for Japanese exports. Thus in 1985 the US market accounted for 56 percent of Japanese exports of automotive equipment. The corresponding share only four years earlier had been 33 percent. Likewise, the share of the USA in Japanese exports of electronic products (excluding computers) increased from 31 to 45 per cent between 1981 and 1985. (GATT, 1986, Tables A30-32). In 1985, 40,1 per cent of all Japanese exports went to the USA. By contrast, Japan only absorbed about 8 per cent of US exports (GATT, 1986,p.159).

The pattern of DFI flow for the 1970s-80s reflects this change in the balance of economic power in two different ways.

### Table 5
**MERCHANDISE TRADE BALANCE AS PERCENTAGE OF GNP**

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<tbody>
<tr>
<td>USA</td>
<td>-1.4</td>
<td>-2.1</td>
<td>-3.4</td>
<td>-3.5</td>
</tr>
<tr>
<td>JAPAN</td>
<td>0.7</td>
<td>1.7</td>
<td>2.7</td>
<td>3.5</td>
</tr>
<tr>
<td>FRG</td>
<td>3.2</td>
<td>2.5</td>
<td>3.1</td>
<td>4.1</td>
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</table>

Source: GATT (1986), Table 1.7

Firstly, throughout the post war period the USA has remained the largest source of DFI outflow although as we have seen its share has declined continually. However, up to about 1970 the USA did not attract much inflow of DFI. As can be seen from Table 8 that situation has now changed dramatically: the USA now accounts for by far the largest share of inward DFI. The share of the USA in total DFI inflows rose by nearly 400 per cent between the early 1970s and the early 1980s (UNCTC, 1983). During the latter part of the 1960s the share of the USA in the inflow of DFI was a mere 3 per cent (Pugel, 1985, p.57).

### Table 6
**EROSION OF US DOMINANCE IN WORLD MANUFACTURING**

<table>
<thead>
<tr>
<th>Share of World Manufacturing Output</th>
<th>1963</th>
<th>1980</th>
<th>1985</th>
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<tbody>
<tr>
<td>USA</td>
<td>40.3</td>
<td>29.4</td>
<td>29.0</td>
</tr>
<tr>
<td>FRG</td>
<td>9.7</td>
<td>12.4</td>
<td>12.2</td>
</tr>
<tr>
<td>JAPAN</td>
<td>5.5</td>
<td>15.7</td>
<td>19.0</td>
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### Table 4
**WORLD’S LEADING EXPORTERS OF MANUFACTURED GOODS**

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<tbody>
<tr>
<td>USA</td>
<td>12.6</td>
<td>12.1</td>
<td>12.4</td>
<td>12.0</td>
</tr>
<tr>
<td>FRG</td>
<td>17.0</td>
<td>15.5</td>
<td>13.5</td>
<td>13.2</td>
</tr>
<tr>
<td>JAPAN</td>
<td>10.0</td>
<td>10.4</td>
<td>13.3</td>
<td>14.1</td>
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</table>

Source: GATT (1986), Table A17.

During the 1980s the growth of the DFI inflow to the USA accelerated (UNCTC, 1987). For the 1980-1985 period, US inflows averaged 36.3 per cent of the total DFI inflows for the developed countries. In 1984-85, the US inflow was 43 per cent of the total (CTC Reporter, 1987,p.3.)
The reason for the initial low penetration of the US market by non-US TNCs would seem to be the perceived superiority of US TNCs in technological and marketing prowess. Most non-US firms felt unable to establish a competitive foothold in the USA, particularly in those industries and markets in which US TNCs were the dominant elements in oligopolistic structures (Lall and Siddharthan, 1982). Of course, as Hymer and Rowthorn (1970) argued, this perception and the notion of 'the American Challenge' was probably due, in part, to myopia:

'Europeans felt threatened because they saw US corporations gaining an increasing share of the European market. They paid little attention to the fact that, in the world market taken as a whole US corporations were themselves being threatened by the rapid growth of the Common Market and the Japanese economy and required a rapid expansion of foreign investment to maintain their relative standing' (pp. 71-72).

But the loss of competitiveness by US TNCs in international markets has now enhanced the confidence of non-US TNCs to challenge US firms in the USA itself. Some evidence on the decline in 'ownership' advantages of US TNCs relative to non-US TNCs is provided in a study by Stopford and Dunning (1983, p.59). The decline of the dollar relative to other currencies and the growing foreign exchange surpluses mainly held in dollar balances have also facilitated the acquisition of US firms by non-US TNCs. Acquisition is in fact now the usual route for entering the US market. Thus in 1980-82 the proportion of manufacturing DFI accounted for by acquisition of US companies was about 84 per cent on average (Caves and Mehra, 1986, p.459.).

Secondly, the increased competitiveness of non-US TNCs vis-a-vis US TNCs is reflected in the changing character of the outflow of DFI from other developed capitalist economies. Both UK and Japanese DFI, during the first half of the post-war period, concentrated in relatively low technology activities and in the case of Japan the majority of its DFI flow was to the LDCs (UNCTC, 1983, Annex Table 11.11.,p.296). US DFI has always been concentrated in high technology products and in high income developed areas.

Thus even though in the 1960s and 1970s non-US participants in international production were growing in importance, they were non-competing so far as US DFI was concerned. However, as can be surmised from Tables 7 and 8 this situation has now changed and there is a growing similarity in both the industrial structure and destination of US and non-US DFI.
We now turn to the second major development in the post-1970 international economy: the emergence of the NICs. In the immediate post-war period the combined weight of LDCs in manufacturing was probably negligible. In the early 1980s their share was 15.3 per cent (Dicken, 1986, p.29). Even more significant perhaps is the rapid expansion in manufacturing exports from the LDCs. According to GATT (1986, p.141) the share of LDCs in total world exports of manufactured goods grew from 4.3 per cent in 1963 to 12.4 per cent in 1985. But it is important to remember that only a relatively small number of LDCs have emerged as large scale exporters of manufactures. In 1970, ten countries accounted for just over 70 per cent of total manufacturing exports from LDCs. In 1985, the same ten countries had increased their share to 83 per cent. In the later year the largest four exporters (Taiwan, Republic of Korea, Hong Kong and Brazil) accounted for 74 per cent of all manufactured goods exports from LDCs, GATT (1986).

Furthermore some analysts have pointed out that the prospects for the continued growth in manufacturing exports from the existing NICs are not encouraging (Kaplinsky, 1984), nor are the prospects of many other LDCs joining the ranks of NICs (Turner et al, 1982). In spite of these cautionary notes, however, it is true, as Dicken (1986) has pointed out that manufacturing is no longer an exclusively 'core' activity. In this sense, one can point to a transformation in the international division of labour. The so-called colonial division of labour under which LDCs were assigned a role as only the importers of manufactured goods rather than significant producers or exporters no longer presents an accurate picture of international economic relations.

At first glance it seems inadmissible to characterise any particular world economic order - whether 'old', 'colonial' or 'new' - by the apparent role of the LDCs. After all, in quantitative terms, their role is quite small. But the position of the LDCs can reveal the underlying structure of the prevalent order.

Thus it can be argued that, whilst policies by the governments of developed and less developed countries have had an influence on the emerging new international division of labour, the greater ability of TNCs to organise and rationalise production globally is nonetheless the critical factor. Clearly the NIC phenomenon is too diverse and covers too wide a range of manufacturing activities to be explained purely in terms of TNC operations. Nor has the extent or the role of TNCs in the expansion of exports from the different NICs been similar. However an exclusive focus on the specific, quantitative, role of TNCs in individual countries may significantly under-estimate their impact: the structure of the global environment and the climate in favour of particular policies and incentive structures, both in the developed countries and in the NICs, may well be, at least partly, influenced collectively by the TNCs. For example, it can be argued that without the political pressure exerted by TNCs, exports from NICs would have faced much higher tariff and non-tariff barriers in the developed countries than they do. More generally, Hellevi (1977) has shown that the evolution of US trade policy very largely reflects the interests of US TNCs. Similar processes are probably at work in other developed countries. Broadly speaking therefore the 'new' division of labour and the NIC phenomenon may themselves be particular manifestations of the globalisation of the world economy, a process in which the most powerful driving force is probably the TNC.

It follows from the above that the emergence of the NICs cannot necessarily be equated with a significant change in the balance of international economic power in favour of (some of) the LDCs. As Cowling and Sugden (1987b) have pointed out, the fundamental issue is whether the geographical spread of manufacturing activity also represents a multiplicity of the centres of strategic decision-making and coordination. There are a number of reasons for arguing that, as yet it does not.

Firstly, in a broad sense, the NIC phenomenon, can be interpreted reflecting the 'new' competition between Japan and the older industrial powers, particularly the USA. The initial emergence and, perhaps to a lesser extent, the continued growth of the NICs may be interpreted as a consequence of the major structural change in the world economy i.e., the rise of Japan, rather than as a separate development. Armstrong, et al., articulate the point involved in the following terms:

"The problem was not so much that the NICs were selling more to the advanced countries than they were buying from them but rather that they were selling consumer goods to the EEC and especially the USA, whilst buying capital goods from Japan. So friction between the NICs and advanced countries was largely a reflection of the friction between Japan on the one hand and the EEC and US on the other. The NICs were the terrain on which competition between the advanced countries was fought out" (1984, pp.358-9).

The heavy dependence of the NICs on imports of capital goods has been remarked on by other writers as well, (see, for example, Jenkins, 1984). However in the present context it is not the dependence of the NICs on capital goods imports per se that is the problem. After all with the exception of the first industrialising country all others have probably depended, to varying degrees, on imports of capital goods. The relevant issue is whether this dependence is temporary or, as a fundamental aspect of national economic disintegration, permanent.

This brings us to the second point. It is argued convincingly by Kaplinsky (1984) that radical technological change is undermining the comparative advantage of LDCs in many of the products which they currently export or into
Aspects of Involvement of TNCs

Secondly the figures reported in such studies for different countries are not comparable. For example the percentage of manufactured goods exports from India controlled by foreign-owned firms is reported as 5 per cent in the early 1970s, Jenkins (1984, p.40). This refers almost certainly to TNC activities oriented towards the domestic market (but which export a part of their output). For Singapore, other Asian NICs or Mexico, on the other hand, the percentage figures for exports controlled by TNCs are more likely to relate to 'global sourcing'. It is the latter type of activity which is of major interest in the context of this paper. There is some limited evidence indicating a rising trend in export-oriented TNC activities during the 1970s and 1980s. Thus as Table 9 shows imports to the USA under items 806/807 of the US tariff regulations have increased very rapidly. The table also shows the total manufacturing exports from each country to the developed capitalist countries in 1985 to indicate the relative significance of 806/807 exports for each country.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>1969</th>
<th>1983</th>
<th>Total manufacturing exports to DCs</th>
<th>806/807 exports as percentage of exports to DCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>150.0</td>
<td>3714</td>
<td>6416</td>
<td>57.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.4</td>
<td>1263</td>
<td>3038</td>
<td>39.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>11.6</td>
<td>984</td>
<td>6925</td>
<td>14.2</td>
</tr>
<tr>
<td>Philippines</td>
<td>5.2</td>
<td>726</td>
<td>1951</td>
<td>37.2</td>
</tr>
<tr>
<td>Korea</td>
<td>23.8</td>
<td>576</td>
<td>18150</td>
<td>3.1</td>
</tr>
<tr>
<td>Taiwan</td>
<td>68.7</td>
<td>568</td>
<td>na</td>
<td>-</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>91.0</td>
<td>448</td>
<td>15922</td>
<td>2.8</td>
</tr>
<tr>
<td>Haiti</td>
<td>4.0</td>
<td>197</td>
<td>333</td>
<td>59.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>4.1</td>
<td>193</td>
<td>4633</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Note: DCs = Developed Capitalist Countries; na, not available

As may be expected the table shows a very uneven situation. In particular, for the Republic of Korea and Hong Kong (and probably also Taiwan) 806/807 exports to the USA are relatively insignificant. For other, 'second tier', Asian NICs however these exports are more important. These figures should in any case be treated with caution for at least two major reasons. Firstly, we do not know the precise arrangements under which non-806/807 exports have been generated.

which they may expect to move in the near future. The analysis of Kaplinsky raises the spectre of 'trade reversal': relocation in the advanced countries of some of the activities currently undertaken in the NICs. In fact the consequences of rapid technological change are already being felt by the NICs. For example in his analysis of the colour television industry, Turner (1982, p.67) remarks that the rapidity of technical change is such that 'the NICs are stalking a target that is moving faster in front of them'.

This last point puts the role of TNCs in the expansion of exports from the NICs into sharp focus since not only is the new technology very largely under their control but their organisational and managerial advantages mean that they are likely to be the main agency that would give effect to 'trade reversal'. According to this analysis, the extent to which manufacturing exports from the NICs are under the control of TNCs, the NICs' vulnerability to technological change may increase.

In spite of its importance there is no single source that provides data relating to TNC-controlled exports from the NICs. Researchers have had to piece together fragments of data from several sources. Nayyar (1978) reported data on most NICs relating to the late 1960s and early 1970s. Similar but slightly more recent data are reported by Jenkins (1984, p.40). Two features of such data are noteworthy.

Firstly the data reported in the above studies make no allowances for 'non-equity' operations and exports that the TNCs can generate by such devices. As many others have repeatedly pointed out, arrangements such as sub-contracting generate a large volume of exports, so that data on foreign-owned exports alone are bound to be a significant under-estimate of the role of TNCs. Furthermore sub-contracting should not be seen as only involving manufacturing TNCs. Thus multinational buying groups play an important role in exports from Hong Kong, Korea and Taiwan (Nayyar, 1978). TNCs can exercise control over their sub-contractee via their control over design, quality-control and marketing functions. More generally control can be exercised in a variety of ways not involving ownership. It has been pointed out, for example, that Japanese operations in Taiwan and the Republic of Korea have been financed largely by credit, so that 'any bare criterion of DFI is particularly inadequate for assessing the Japanese stake in Taiwan or Korea' (Halliday, 1980, p.12). Halliday also adds that:

'The role of the giant Japanese trading companies (sogo shosha) has been pivotal. The sosha control a very high percentage of the foreign trade... of both Taiwan and Korea: probably 50 per cent of Taiwan's exports and 40-45 per cent of its imports. The figures for Korea are probably slightly higher...' (pp.12-13).
CONCLUSION

To conclude, we wish to emphasise two points. Firstly, the paper has focussed on continuities and structural change and it seems appropriate to bring out an element of the unity between the two. Thus the emergence of NICs can be seen to be an aspect of the intensification and extension of internationalisation: a limited number of LDCs have been more or less fully integrated in the ‘new’ international division of labour mainly via the agency of TNCs. The question is: What becomes of the rest of the LDCs in the new order? We have already referred to analyses that have suggested that prospects for more LDCs joining the ranks of NICs are not good. We have also ventured the suggestion that, in a sense, the alternative of an ‘inward looking’ strategy is no longer available since it is likely to encounter increasing economic obstruction by the TNCs and ‘political’ opposition by the IMF and the World Bank. Clearly, the implications of this failure to integrate fully the majority of the LDCs into the ‘new’ international economic order, both for the LDCs themselves and also for the system as a whole, are profound, but an examination of them goes beyond the scope of this paper.

This brings us to the second point. One, and perhaps the most profound consequence of the process of internationalisation, is the fact that what Brett (1985) has called the internationalisation of political control lags considerably behind the internationalisation of economic activity.

It is true, of course, that the inevitable reduction in the autonomy and effectiveness of national economic policy and the greater influence of the ‘supra national’ organisations such as the IMF, World Bank and the EEC has probably increased the degree of de-facto international policy control (Brett, 1985). But such bodies do not seem able, as yet, to perform the full range of functions that the overall coherence of the system requires. This is particularly true as far as macro-economic stability and coordination is concerned.

To grasp the importance of this point it must be realised that international economic management orchestrated by the USA had a strong positive influence on the growth of the world economy during the 1950s and 1960s. Although eventually the thrust of this policy was to promote a liberal trading and investment environment which now encompasses even Japan, the initial conditions for the post-war boom were created by a highly interventionist stance:

‘The transition from crisis to boom between 1947 and the end of the 1950s was... achieved by methods that were the exact opposite of those found in the orthodox textbooks, methods involving extreme forms of state intervention and international economic management’ Brett (1985), p.109.

Table 10

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>No of Employees in Japanese-Affiliates</th>
<th>No of employees in US Affiliates</th>
<th>Total Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1979 (thousands)</td>
<td>1977 (thousands)</td>
<td>1978 (thousands)</td>
</tr>
<tr>
<td>Korea</td>
<td>38.0</td>
<td>8.0</td>
<td>180.0</td>
</tr>
<tr>
<td>Taiwan</td>
<td>54.0</td>
<td>48.0</td>
<td>230.0</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2.0</td>
<td>19.0</td>
<td>94.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>14.0</td>
<td>25.0</td>
<td>60.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>11.0</td>
<td>24.0</td>
<td>60.0</td>
</tr>
</tbody>
</table>

Source: Grunwald and Flamm (1985, p.32)

As already noted for a fuller picture of the role of foreign capital in this or other industries to be gained, allowance should be made for non-equity arrangements. This would seem more important for Japanese capital where, as Halliday (1980) has stressed, non-ownership routes to control have been more common.
Thus, in as much as the internationalisation of the world economy has been accompanied by the decline of US pre-eminence and the absence of an obvious replacement, there is now less coherence and direction to international economic management than during the 1950s or 1960s, at a time when there was need for more. Thus the ‘world economy’ as an integrated político-economic entity is arguably less of a reality than during the 1950s when the foundations of the post war boom were laid.

The experience of the post-war period suggests that the continued growth and internationalisation of capitalism requires some degree of overall ‘macro’ management. From this point of view it may well be that the process of internationalisation has now reached a political limit and that without internationalisation of political control, its future progress is in doubt.

NOTES
1. By ‘international production’ we mean the diverse forms in which a firm can control the productive activity of another firm in a foreign country. Direct foreign investment (DFI) is a particular form of international operation in which control is complete and is guaranteed by the ownership of (a sufficient portion) of the foreign firms equity. Other forms of international operation also involve varying degrees of control over some aspect of management decision making. These ‘non equity’ forms include licensing, technical and management contracts, joint ventures and sub-contracting. In general equity participation is not necessary for a TNC to exercise effective control over the activities of a firm in a foreign country. This point is considered in the text of the paper.

2. In this paper NICs are defined to include the less developed countries and exclude countries such as Greece or Yugoslavia that may also be considered as NICs but are not usually classified as less developed.

3. Thus in 1982 the ‘overseas sourcing ratio’ defined as the ratio of affiliate sales to affiliate sales plus exports was 84.5 per cent for the largest US firms, 71 per cent for the largest UK firms, 59.2 per cent for the largest German firms and only 23.4 per cent for the largest Japanese firms (Dunning and Pearce, 1985, Table 7).

4. Also noteworthy is the emergence of TNCs from a number of LDCs. See, for example, Lall (1983).

5. For an empirical analysis of the factors that influence the choice between sub-contracting and (export) subsidiary formation by US TNCs see Kirkpatrick and Yamin (1981).

6. However although labour itself is relatively immobile internationally, the mobility of multinationals has nevertheless created a global market for labour. Thus, for example, Godfrey (1985) has emphasised the internationalisation of the ‘Reserve Army’ of labour.

7. It should be stressed however, that, increased capital mobility and competition carries no necessary implication regarding social efficiency. Thus there can be no presumption that increased competition is associated with an efficient allocation of resources globally. The organisational innovations that facilitate mobility and that mobility itself are intended to benefit the firm. Whether, in the absence of ‘perfect’ or in fact any markets at all, they also benefit society is at best an empirical issue. See also Yamin and Nixson (1988).

8. The interest of TNCs is now more likely to be in developing activities in particular LDCs as a part of their global network. Thus in the motor industry, with the exception of South Korea, ‘the picture is of NICs feeding into the logistical networks of established multinational companies rather than sustaining a frontal challenge to these companies as the Japanese proved capable of doing in an earlier era’ (Turner, 1982, p.260).

9. Jenkins (1987) discusses the differences between Latin American and East Asian (Taiwan and Republic of Korea) patterns of integration in the international economy. Much of this difference, according to Jenkins, is to be explained in terms of different internal class structures. The question, from the point of view of this paper is which pattern is likely to characterise future developments in the LDCs.

10. The term ‘disintegration’ is perhaps inappropriate in this context, since it presumes the prior existence of an integrated industrial economy, which has not been the case in the NICs.

11. This is confirmed by Westphal et al., (1984) for Korea: ‘Foreign sources have been by far the most important channels of information on product innovation, with buyers of exports being the most important single source’ (p.286). However they seem to regard this kind of relationship between foreign and Korean firms as of the arms-length variety. But as we have already suggested control over such functions as product design and marketing may well give TNCs effective control over operations located in the NICs.

12. This is again confirmed by Westphal et al., (1984,p.286) although their interpretation is different from Halliday.
REFERENCES


